

LARUE COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Year Ended June 30, 2004

LARUE COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2004

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Net Assets – Proprietary Funds	15
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	16
Statement of Cash Flows – Proprietary Funds	17
Statement of Fiduciary Net Assets – Fiduciary Funds	18
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	19
Notes to the Basic Financial Statements	20-35
Required Supplementary Information:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	36
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	37

LARUE COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS - CONTINUED

YEAR ENDED JUNE 30, 2004

Supplementary Information:

Combining Statements – Nonmajor Funds:

Combining Balance Sheet – Nonmajor Governmental Funds	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	39
Combining Statement of Fiduciary Net Assets – Agency Funds	40

High School:

Statement of Receipts, Disbursements, and Fund Balances – Larue County High School	41
---	----

Schedule of Expenditures of Federal Awards	42-43
---	--------------

Notes to the Schedule of Expenditures of Federal Awards	44
--	-----------

Schedule of Findings and Questioned Costs	45-46
--	--------------

Schedule of Prior Year Audit Findings	47
--	-----------

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	48-49
--	--------------

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	50-51
---	--------------

Management Letter Comments	52-54
---	--------------

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA
CHERYLE L. BEAUCHAMP, CPA
J. ALTON PIKE, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs



The CPA. Never Underestimate The Value.®

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Larue County School District
Hodgenville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Larue County School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 8, and the Budgetary Comparison Information on pages 36 through 37, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated October 12, 2004, on our consideration of Larue County School District's internal control over financial reporting and/or tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Larue County School District's basic financial statements. The combining financial statements as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Also, the accompanying Schedule of Expenditures of Federal Awards on pages 42 through 43 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stiles, Carter & Associates

Certified Public Accountants
October 12, 2004

**LARUE COUNTY SCHOOL DISTRICT – HODGENVILLE, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2004**

The discussion and analysis of Larue County School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to review the School District's financial performance as a whole; readers should also review the financial statements and notes to the financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in the Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local governments* issued in June 1999.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$3.4 million. The ending cash balance for the District was \$4.8 million.
- Following the completion of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need.
- Due to the decline of interest rates, interest income fell \$66 thousand; that is a 34.2 percent decrease.
- During fiscal 2004, the District improved its financial position through an increase of \$1.1 million in general fund balance.
- The General Fund had \$13.6 million in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were \$12.6 million in General Fund expenditures. Proceeds from the sale of the old central office (a special item) were \$100,500.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total bond debt decreased by \$495 thousand during the current fiscal year.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 9 - 10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. The only fiduciary funds are agency funds for student education. The only proprietary funds are our food service and childcare operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11 - 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 35 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$4.9 million as of June 30, 2004.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the periods ending June 30, 2004 and 2003

(Table 1)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current and Other Assets	\$ 4,537,922	\$ 3,315,203	\$ 743,686	\$ 512,497	\$ 5,281,608	\$ 3,827,700
Capital Assets	14,029,498	14,463,959	1,262,094	1,276,428	15,291,592	15,740,387
Total Assets	18,567,420	17,779,162	2,005,780	1,788,925	20,573,200	19,568,087
Long-term Debt	14,348,333	14,907,277	-	-	14,348,333	14,907,277
Other Liabilities	1,198,329	1,151,736	71,856	2,670	1,270,185	1,154,406
Total Liabilities	15,546,662	16,059,013	71,856	2,670	15,618,518	16,061,683
Net Assets						
Investment in capital assets (net of debt)	(546,018)	(630,822)	1,262,094	1,276,428	716,076	645,606
Restricted	849,775	857,738	-	-	849,775	857,738
Unrestricted	2,717,001	1,493,233	671,830	509,827	3,388,831	2,003,060
Total Net Assets	\$ 3,020,758	\$ 1,720,149	\$ 1,933,924	\$ 1,786,255	\$ 4,954,682	\$ 3,506,404

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

The District had an increase in cash of \$1.4 million and reduced its bond obligations by \$495 thousand.

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2004, net of Interfund transfers, were \$18.8 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$2.3 million more than budget or approximately 20%.
- The total cost of all programs and services was \$17.8 million including debt service.
- General fund budget expenditures to actual varied significantly in Instruction and the Other Expenditures line item. According to instructions from the Kentucky Department of Education, the District did not budget on-behalf payments. This is the major reason for the budget variances.

The following Table 2 presents a summary of changes in net assets for the fiscal years ended June 30, 2004 and 2003.

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
REVENUES:						
Program revenues:						
Charges for services	\$ 6,880	\$ 6,165	\$ 632,655	\$ 610,977	\$ 639,535	\$ 617,142
Operating grants and contributions	5,427,663	5,147,768	671,274	767,859	6,098,937	5,915,627
Capital grants and contributions	160,592	-	-	-	160,592	-
General revenues:						
Property taxes	1,907,735	1,746,728	-	-	1,907,735	1,746,728
Motor vehicle taxes	360,490	350,858	-	-	360,490	350,858
Utility taxes	456,304	450,152	-	-	456,304	450,152
Investment earnings	115,629	177,213	10,966	15,983	126,595	193,196
State and formula grants	8,930,496	8,276,536	-	-	8,930,496	8,276,536
Gain (loss) on asset disposal	33,189	-	876	-	34,065	-
Miscellaneous	16,175	-	-	-	16,175	-
Special item - gain on sale of building	58,091	-	-	-	58,091	-
Total revenues	<u>17,473,244</u>	<u>16,155,420</u>	<u>1,315,771</u>	<u>1,394,819</u>	<u>18,789,015</u>	<u>17,550,239</u>
EXPENSES:						
Program Activities:						
Instruction	10,365,915	9,971,108	-	-	10,365,915	9,971,108
Student support	685,958	763,121	-	-	685,958	763,121
Instructional staff support	530,133	610,630	-	-	530,133	610,630
District administrative support	272,752	487,667	-	-	272,752	487,667
School administrative support	837,498	808,584	-	-	837,498	808,584
Business support	301,884	123,672	-	-	301,884	123,672
Plant operation and maintenance	1,297,275	1,145,421	-	-	1,297,275	1,145,421
Student transportation	833,605	900,855	-	-	833,605	900,855
Central office support	-	141,261	-	-	-	141,261
Facilities acquisition	181,561	9,000	-	-	181,561	9,000
Community service activities	178,620	156,744	-	-	178,620	156,744
Other	29,525	6,099	-	-	29,525	6,099
Interest costs	657,909	683,154	-	-	657,909	683,154
Business-type Activities:						
Food service	-	-	873,033	997,410	873,033	997,410
Childcare	-	-	295,069	253,685	295,069	253,685
Total expenses	<u>16,172,635</u>	<u>15,807,316</u>	<u>1,168,102</u>	<u>1,251,095</u>	<u>17,340,737</u>	<u>17,058,411</u>
Transfers	<u>-</u>	<u>(813,543)</u>	<u>-</u>	<u>813,543</u>	<u>-</u>	<u>-</u>
Increase in net assets	<u>\$ 1,300,609</u>	<u>\$ (465,439)</u>	<u>\$ 147,669</u>	<u>\$ 957,267</u>	<u>\$ 1,448,278</u>	<u>\$ 491,828</u>

Governmental Activities

Instruction comprises 64% of governmental program expenses. Support services expenses make up 31% of government expenses. The remaining expense for interest, facilities acquisition and other items accounts for the remaining 5% of total government expense.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

	Governmental Activities Total Cost of Services		Net Cost of Services	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Instruction	\$ 10,365,915	\$ 9,971,108	\$ 5,370,341	\$ 5,218,862
Support Services	4,937,725	5,137,955	4,498,756	4,736,268
Other	29,525	6,099	29,525	6,099
Facilities acquisition	181,561	9,000	20,969	9,000
Interest costs	<u>657,909</u>	<u>683,154</u>	<u>657,909</u>	<u>683,154</u>
Total expenses	<u>\$ 16,172,635</u>	<u>\$ 15,807,316</u>	<u>\$ 10,577,500</u>	<u>\$ 10,653,383</u>

Business-Type Activities

The business-type activities include the food service and childcare operations. These programs had total revenues of \$1,315,771 and expenses of \$1,168,102 for fiscal year 2004. Of the revenues, \$632,655 was charges for services, \$671,274 was from State and Federal grants, \$10,966 was from investment earnings and \$876 was gain on sale of assets. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will increase the charges for this activity.

The School District's Funds

Information about the School District's major funds starts on page 11. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$18,250,101 and expenditures and other financing uses of \$17,114,068. Net changes in fund balances for the year were most significant in General Fund which increased by \$1,068,895.

The increase in the General Fund was due to closely monitoring costs, increased tax revenue and the sale of capital assets..

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

For the General Fund, revenues were budgeted at \$11,267,010 with actual amounts of \$13,633,093. Budgeted expenditures of \$13,317,367 compare with actual expenditures of \$12,653,614. The most significant fluctuation is for on-behalf payments of \$2,016,440. If on-behalf payments were not included in revenues, revenues would be \$11,300,927, which is \$33,917 over budget. If on-behalf payments were not included in expenditures, expenditures would be \$10,637,174, which is \$2,680,193 under budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004 the School District had \$15,291,592 invested in land, buildings, equipment, and construction in progress, and \$14,029,498 in governmental activities. Table 4 shows fiscal year 2004 and 2003 balances.

Capital Assets (Net of Depreciation)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 309,472	\$ 309,799	\$ -	\$ -	\$ 309,472	\$ 309,799
Land improvements	493,283	540,330	-	-	493,283	540,330
Buildings and improvements	12,066,126	12,421,316	1,008,709	1,033,813	13,074,835	13,455,129
Technology	385,612	486,866	9,959	12,577	395,571	499,443
Vehicles	548,794	508,406	-	-	548,794	508,406
General equipment	226,211	197,242	243,426	230,038	469,637	427,280
Total	<u>\$ 14,029,498</u>	<u>\$14,463,959</u>	<u>\$ 1,262,094</u>	<u>\$ 1,276,428</u>	<u>\$15,291,592</u>	<u>\$15,740,387</u>

Table 5 shows changes in capital assets for the fiscal years 2004 and 2003.

Change in Capital Assets						
	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Beginning balance	\$ 14,463,959	\$14,254,358	\$ 1,276,428	\$ 487,635	\$15,740,387	\$14,741,993
Additions	316,232	1,035,698	41,800	841,114	358,032	1,876,812
Retirements	(21,754)	-	676	-	(21,078)	-
Depreciation	(728,939)	(826,097)	(56,810)	(52,321)	(785,749)	(878,418)
Ending balance	<u>\$ 14,029,498</u>	<u>\$14,463,959</u>	<u>\$ 1,262,094</u>	<u>\$ 1,276,428</u>	<u>\$15,291,592</u>	<u>\$15,740,387</u>

Debt

At June 30, 2004, the School District had \$14,560,000, in bonds outstanding, of this amount \$3,611,402 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$505,000 is due within one year.

District Challenges for the Future

Larue County School District's financial status has improved in the last fiscal year. This improvement was the result of an increase in state and tax revenues and a hold on expenditures. However, as we look forward, we expect unfunded mandates to have an impact on our District.

The School District has continued to improve facilities by building new and renovating existing schools. These new and renovated facilities come with additional personnel cost (both administrative and support staffs). These facilities also have a cost for computers, library books, instructional materials, and other items that are primarily paid from the General Fund. These costs along with the need to add or renovate additional buildings in the next few years will create more challenges for the School District.

The costs associated with growth have in the past been offset due to increased student enrollment producing additional state funding, and continued increases in business and residential property subject to tax within the School District. Our property tax base continues to grow; however our School District, like all Kentucky School Districts, is limited to a 4% annual growth in property tax revenue on existing property.

Additional factors concerning our School District's financial status include the implementation of various unfunded mandates. Examples include the Flex Fund accounts (Professional Development, Safe Schools, Preschool, Textbooks and Extended School Services). State funding for these programs does not meet our instructional needs as a District. Therefore, local generated funds will have to address these areas. Also, the uncertainty of state budgeted revenue projections may impact our funding as well as future mandated salary increases for all certified personnel. In addition, the full effect of No Child Left Behind (NCLB) has yet to be determined. Funding for this program is not equal to the mandates required by the Federal Government.

With careful planning and monitoring of our finances, Larue County Schools' goal is to continue to provide a quality education for our students and a secure financial future for the School District.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information contact Pamela Kay Bryant, Finance Officer, 208 College Street, Hodgenville, Kentucky, (270) 358-4111.

BASIC FINANCIAL STATEMENTS

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004

Assets	Governmental Activities	Business- Type Activities	Total
<u>Current Assets</u>			
Cash and cash equivalents	\$ 3,884,111	\$ 712,590	\$ 4,596,701
Inventory		21,021	21,021
Accounts receivable:			
Taxes-current	69,352		69,352
Taxes-delinquent	3,368		3,368
Accounts receivable	34,430	3,577	38,007
Intergovernmental-State	197,769	5,363	203,132
Intergovernmental-Indirect Federal	260,191	1,135	261,326
Prepaid expenses	18,349		18,349
Due from other funds	70,352		70,352
Total Current Assets	4,537,922	743,686	5,281,608
<u>Noncurrent Assets</u>			
Capital assets	21,476,319	1,846,057	23,322,376
Less: accumulated depreciation	(7,446,821)	(583,963)	(8,030,784)
Total Noncurrent Assets	14,029,498	1,262,094	15,291,592
Total Assets	18,567,420	2,005,780	20,573,200
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	330,496	771	331,267
Due to other funds		70,352	70,352
Deferred revenue	47,482	733	48,215
Current portion of bond obligations	505,000		505,000
Current portion of capital lease obligations	43,617		43,617
Current portion of accrued sick leave	69,641		69,641
Interest payable	202,093		202,093
Total Current Liabilities	1,198,329	71,856	1,270,185
<u>Noncurrent Liabilities</u>			
Noncurrent portion of bond obligations	14,055,000		14,055,000
Less: Deferred amount on refunding	(49,144)		(49,144)
Less: Bond discount and expense	(24,673)		(24,673)
Noncurrent portion of capital lease obligations	45,716		45,716
Noncurrent portion of accrued sick leave	321,434		321,434
Total Noncurrent Liabilities	14,348,333	-	14,348,333
Total Liabilities	15,546,662	71,856	15,618,518
<u>Net Assets</u>			
Invested in capital assets, net of related debt	(546,018)	1,262,094	716,076
Restricted for:			
Capital projects	140,713		140,713
Debt service	709,062		709,062
Other purposes (nonexpendable)			-
Unrestricted	2,717,001	671,830	3,388,831
Total Net Assets	\$ 3,020,758	\$ 1,933,924	\$ 4,954,682

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

FUNCTIONS/PROGRAMS

Governmental Activities:

Instruction
Support services:
 Student
Instruction staff
District administrative
School administrative
Business
Plant operation and maintenance
Student transportation
Facilities acquisition and construction
Community service activities
Other
Interest on long-term debt

Total Governmental Activities

Business-Type Activities:

Food service
Childcare

Total Business-Type Activities

Total Primary Government

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
	\$ 10,365,915	\$ 6,880	\$ 4,988,694	\$ -	\$ -	\$ (5,370,341)
						\$ (5,370,341)
Student	685,958			(637,821)		(637,821)
Instruction staff	530,133	48,137		(378,815)		(378,815)
District administrative	272,752	151,318		(272,752)		(272,752)
School administrative	837,498			(837,498)		(837,498)
Business	301,884			(301,884)		(301,884)
Plant operation and maintenance	1,297,275			(1,297,275)		(1,297,275)
Student transportation	833,605	60,894		(772,711)		(772,711)
Facilities acquisition and construction	181,561		160,592	(20,969)		(20,969)
Community service activities	178,620	178,620		-		-
Other	29,525			(29,525)		(29,525)
Interest on long-term debt	657,909			(657,909)		(657,909)
						(10,577,500)
Total Governmental Activities	16,172,635	6,880	5,427,663	(10,577,500)	-	(10,577,500)
	873,033	418,976	593,343		139,286	139,286
	295,069	213,679	77,931		(3,459)	(3,459)
	1,168,102	632,655	671,274	-	135,827	135,827
	\$ 17,340,737	\$ 639,535	\$ 6,098,937	(10,577,500)	135,827	(10,441,673)

General Revenues:

Taxes:

Property taxes
Motor vehicle taxes
Utility taxes
Investment earnings
State and formula grants
Gain on sales of fixed assets
Miscellaneous
Special item - gain on sale of building

Property taxes	1,907,735	-	1,907,735
Motor vehicle taxes	360,490		360,490
Utility taxes	456,304		456,304
Investment earnings	115,629	10,966	126,595
State and formula grants	8,930,496		8,930,496
Gain on sales of fixed assets	33,189	876	34,065
Miscellaneous	16,175		16,175
Special item - gain on sale of building	58,091		58,091

Change in net assets

Change in net assets	1,300,609	147,669	1,448,278
----------------------	-----------	---------	-----------

Net assets - beginning

Net assets - beginning	1,720,149	1,786,255	3,506,404
------------------------	-----------	-----------	-----------

Net assets - ending

Net assets - ending	\$ 3,020,758	\$ 1,933,924	\$ 4,954,682
---------------------	--------------	--------------	--------------

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

LARUE COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2004

	General Fund	Special Revenue	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets and Resources:						
Cash and cash equivalents	\$ 3,097,215	\$ -	\$ -	\$ 709,062	\$ 218,431	\$ 4,024,708
Accounts receivable:						
Taxes - current	69,352					69,352
Taxes - delinquent	2,921				447	3,368
Accounts receivable	31,766	2,664				34,430
Intergovernmental - State		37,176	144,533			181,709
Intergovernmental - Indirect Federal		260,191				260,191
Prepaid expenses	18,349					18,349
Due from other funds	70,352					70,352
Total Assets and Resources	<u>\$ 3,289,955</u>	<u>\$ 300,031</u>	<u>\$ 144,533</u>	<u>\$ 709,062</u>	<u>\$ 218,878</u>	<u>\$ 4,662,459</u>
Liabilities and Fund Balances:						
Liabilities						
Accounts payable	\$ 104,291	\$ 65,613	\$ 144,533	\$ -	\$ -	\$ 314,437
Cash overdraft		140,597				140,597
Accrued payroll and related expenses						-
Current portion of accumulated sick leave						-
Deferred revenue		47,482				47,482
Due to other funds						-
Total Liabilities	<u>104,291</u>	<u>253,692</u>	<u>144,533</u>	<u>-</u>	<u>-</u>	<u>502,516</u>
Fund Balances						
Reserved for:						
Sick leave	44,000					44,000
Debt service				709,062		709,062
SFCC escrow					140,713	140,713
Unreserved:						
Undesignated, reported in:						
General fund	3,141,664					3,141,664
Special revenue funds		46,339				46,339
Capital projects funds					78,165	78,165
Total Fund Balances	<u>3,185,664</u>	<u>46,339</u>	<u>-</u>	<u>709,062</u>	<u>218,878</u>	<u>4,159,943</u>
Total Liabilities and Fund Balances	<u>\$ 3,289,955</u>	<u>\$ 300,031</u>	<u>\$ 144,533</u>	<u>\$ 709,062</u>	<u>\$ 218,878</u>	<u>\$ 4,662,459</u>

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2004

Total fund balance per fund financial statements	\$ 4,159,943
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	14,029,498
Certain assets (such as certain long-term receivables) are not reported in this fund financial statement because they are not recorded under modified accrual.	16,060
Certain liabilities (such as bonds and capital leases, certain payables, accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(15,184,743)</u>
Net assets for governmental activities	<u>\$ 3,020,758</u>

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2004

	General Fund	Special Revenue	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
From local sources:						
Taxes:						
Property	\$ 1,656,635	\$ -	\$ -	\$ -	\$ 251,100	\$ 1,907,735
Motor vehicle	360,490					360,490
Utilities	456,304					456,304
Tuition and fees	4,600					4,600
Earnings on investments	77,189	658	37	37,745		115,629
Other local revenues	17,885	20,337			570	38,792
Intergovernmental - State	11,045,159	897,039	144,533	341,683	574,129	13,002,543
Intergovernmental - Indirect Federal		1,460,981				1,460,981
Intergovernmental - Direct Federal	14,831	4,000				18,831
Total Revenues	13,633,093	2,383,015	144,570	379,428	825,799	17,365,905
Expenditures:						
Instruction	7,904,330	1,949,853				9,854,183
Support services:						
Student	650,617	48,137				698,754
Instruction staff	376,315	151,318				527,633
District administrative	339,547					339,547
School administrative	837,156					837,156
Business	315,160					315,160
Plant operation and maintenance	1,333,271					1,333,271
Student transportation	813,206	60,894				874,100
Facilities acquisition and construction	20,220		145,280			165,500
Community service activities		178,620				178,620
Other	63,792					63,792
Bond issue costs						-
Debt service:						
Principal				490,000		490,000
Interest				665,190		665,190
Total Expenditures	12,653,614	2,388,822	145,280	1,155,190	-	16,342,906
Excess (Deficit) of Revenues over Expenditures	979,479	(5,807)	(710)	(775,762)	825,799	1,022,999
Other Financing Sources (Uses):						
Proceeds from sale of fixed assets	12,534					12,534
Operating transfers in		23,528		747,634		771,162
Operating transfers out	(23,528)				(747,634)	(771,162)
Total Other Financing Sources (Uses)	(10,994)	23,528	-	747,634	(747,634)	12,534
Excess (Deficit) of Revenue and Other Financing Sources over Expenditures and Other Financing Uses	968,485	17,721	(710)	(28,128)	78,165	1,035,533
Special item - sale of building	100,500					100,500
Net Change in Fund Balances	1,068,985	17,721	(710)	(28,128)	78,165	1,136,033
Fund Balance, July 1, 2003	2,116,679	28,618	710	737,190	140,713	3,023,910
Fund Balance, June 30, 2004	\$ 3,185,664	\$ 46,339	\$ -	\$ 709,062	\$ 218,878	\$ 4,159,943

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Net change in total fund balances per fund financial statements	\$ 1,136,033
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.	(412,707)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	539,448
In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.	(21,754)
Generally, revenues are recorded in the fund financial statement only when they are measurable and available, but revenues are recognized in the statement of activities when realized.	16,509
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>43,080</u>
Change in net assets of governmental activities	<u>\$ 1,300,609</u>

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2004

	Food Service Fund	Childcare Fund	Total
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 655,863	\$ 56,727	\$ 712,590
Inventory	21,021		21,021
Accounts receivable:			
Accounts receivable		3,577	3,577
Intergovernmental - State		5,363	5,363
Intergovernmental - Indirect Federal		1,135	1,135
Total Current Assets	676,884	66,802	743,686
<u>Noncurrent Assets</u>			
Capital assets	1,843,157	2,900	1,846,057
Less: accumulated depreciation	(581,288)	(2,675)	(583,963)
Total Noncurrent Assets	1,261,869	225	1,262,094
Total Assets	1,938,753	67,027	2,005,780
Liabilities			
<u>Current Liabilities</u>			
Accounts payable		771	771
Due to other funds	70,352		70,352
Deferred revenue		733	733
Total Current Liabilities	70,352	1,504	71,856
<u>Net Assets</u>			
Invested in capital assets, net of related debt	1,261,869	225	1,262,094
Unrestricted	606,532	65,298	671,830
Total Net Assets	\$ 1,868,401	\$ 65,523	\$ 1,933,924

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

Year Ended June 30, 2004

	Food Service Fund	Childcare Fund	Total
Operating Revenues:			
Lunchroom sales	\$ 418,786	\$ -	\$ 418,786
Other operating revenues	190	213,679	213,869
Total Operating Revenues	418,976	213,679	632,655
Operating Expenses:			
Salaries and wages	390,421	246,978	637,399
Materials and supplies	406,667	41,631	448,298
Depreciation	56,520	290	56,810
Other operating expenses	19,425	6,170	25,595
Total Operating Expenses	873,033	295,069	1,168,102
Operating loss	(454,057)	(81,390)	(535,447)
Non-Operating Revenues (Expenses):			
Federal grants	516,125	18,960	535,085
Donated commodities	62,903		62,903
State grants	14,315	58,971	73,286
Gain on sale of equipment	876		876
Interest income	10,877	89	10,966
Total Non-Operating Revenues (Expenses)	605,096	78,020	683,116
Change in Net Assets	151,039	(3,370)	147,669
Net assets, July 1, 2003	1,717,362	68,893	1,786,255
Net assets, June 30, 2004	\$ 1,868,401	\$ 65,523	\$ 1,933,924

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2004

	Food Service Fund	Childcare Fund	Total
Cash Flows from Operating Activities			
Cash received from:			
Lunchroom sales	\$ 418,786	\$ -	\$ 418,786
Other activities	190	213,712	213,902
Cash paid to/for:			
Employees	390,421	246,978	637,399
Supplies	279,467	42,555	322,022
Other activities	19,425	6,170	25,595
Net Cash (Used) by Operating Activities	(270,337)	(81,991)	(352,328)
Cash flows from Non-Capital and Related Financing Activities			
Federal grants	529,871	27,174	557,045
State grants	14,315	55,156	69,471
Net Cash Provided by Non-Capital and Related Financing Activities	544,186	82,330	626,516
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	(41,600)		(41,600)
Cash Flows from Investing Activities			
Receipt of interest income	10,877	89	10,966
Net increase in cash and cash equivalents	243,126	428	243,554
Balances, beginning of year	412,737	56,299	469,036
Balances, end of year	<u>\$ 655,863</u>	<u>\$ 56,727</u>	<u>\$ 712,590</u>
Reconciliation of operating loss to net cash used by operating activities			
Operating loss	\$ (454,057)	\$ (81,390)	(535,447)
Adjustments to reconcile operating loss to net cash (used) by operating activities:			
Depreciation	56,520	290	56,810
Donated commodities	62,903		62,903
Change in assets and liabilities:			
Receivables		33	33
Inventory	(5,813)		(5,813)
Accounts payable	(242)	(1,186)	(1,428)
Deferred revenue		262	262
Due to other funds	70,352		70,352
Net cash used by operating activities	<u>\$ (270,337)</u>	<u>\$ (81,991)</u>	<u>\$ (352,328)</u>
Schedule of non-cash transactions:			
Donated commodities received from federal government	<u>\$ 62,903</u>	<u>\$ -</u>	<u>\$ 62,903</u>

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2004

	Private Purpose Trust Funds	Agency Fund
Assets		
Cash and cash equivalents	\$ 20,553	\$ 137,352
Accounts receivable		7,835
Total Assets	<u>20,553</u>	<u>145,187</u>
Liabilities		
Accounts payable	-	18,119
Due to student groups		127,068
Total Liabilities	<u>-</u>	<u>145,187</u>
Net Assets Held in Trust	<u>\$ 20,553</u>	<u>\$ -</u>

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

Year Ended June 30, 2004

	Private Purpose Trust Funds
Additions	
Net interest and investment gains (losses)	\$ 453
Deductions	
Scholarships paid	<u>(750)</u>
Change in net assets	(297)
Net Assets, beginning of year	<u>20,850</u>
Net Assets, end of year	<u><u>\$ 20,553</u></u>

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Larue County Board of Education ("Board"), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Larue County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Larue County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Larue County Board of Education Finance Corporation – In a prior year the Board of Education resolved to authorize the establishment of the Larue County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. The Corporation is blended into the District's financial statements.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of net assets presents the financial condition of the governmental and business-type activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in fund balances. Proprietary funds are reported using the economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases and decreases in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities. Fiduciary funds are also reported using the economic resources measurement focus.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 42 through 43. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

II. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.
- B. The Childcare Fund accounts for the day care operations of the District.

III. Fiduciary Fund Type (Agency Fund)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.
- B. The Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting - continued

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are normally levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 received a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property.

The property tax rates assessed for the year ended June 30, 2004, to finance operations were \$.447 per \$100 valuation for real property, \$.447 per \$100 valuation for business personal property and \$.552 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget appropriations lapse at year-end.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Encumbrances

Encumbrances are not liabilities and, therefore, are not reported as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2004.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Receivables

The District recognizes revenues as receivable when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions.

Accrued Liabilities and Long-Term Obligations

All payables accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for SFCC escrow and debt service.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools and for childcare services provided.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2004

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's total cash and cash equivalents was \$5,145,515. Of the total cash balance, \$158,257 was covered by Federal Depository Insurance, \$3,742,299 was covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name and \$1,244,959 was uncollateralized. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2004 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Magnolia Bank	\$ 5,087,258	\$ 4,698,102
Bank of Buffalo	10,231	8,655
Lincoln National Bank	<u>48,026</u>	<u>47,849</u>
Total	<u>\$ 5,145,515</u>	<u>\$ 4,754,606</u>

Breakdown per financial statements:

Governmental funds	\$ 3,884,111
Business-type funds	712,590
Agency funds	137,352
Private Purpose Trust funds	<u>20,553</u>
	<u>\$ 4,754,606</u>

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2004

NOTE D - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
Non-Depreciable Assets:				
Land	\$ 309,799	\$ -	\$ (327)	\$ 309,472
Depreciable Assets:				
Land improvements	1,083,165		(10,558)	1,072,607
Buildings and improvements	15,932,690		(57,000)	15,875,690
Technology equipment	1,765,367	108,392	(74,645)	1,799,114
Vehicles	1,564,223	149,779	(107,352)	1,606,650
General equipment	754,725	58,061		812,786
Totals at historical cost	21,409,969	316,232	(249,882)	21,476,319
Accumulated depreciation:				
Land improvements	542,835	46,783	(10,294)	579,324
Buildings and improvements	3,511,374	298,190		3,809,564
Technology equipment	1,278,501	250,066	(115,065)	1,413,502
Vehicles	1,055,817	104,808	(102,769)	1,057,856
General equipment	557,483	29,092		586,575
Total accumulated depreciation	6,946,010	728,939	(228,128)	7,446,821
Government Activities Capital Assets - Net	<u>\$ 14,463,959</u>	<u>\$ (412,707)</u>	<u>\$ (21,754)</u>	<u>\$ 14,029,498</u>
<u>Business-Type Activities</u>				
Buildings and improvements	1,255,218			1,255,218
Technology equipment	42,180	1,300	2,300	41,180
General equipment	510,464	40,500	1,305	549,659
Totals at historical cost	1,807,862	41,800	3,605	1,846,057
Accumulated depreciation:				
Buildings and improvements	221,405	25,104		246,509
Technology equipment	29,603	3,918	2,300	31,221
General equipment	280,426	27,788	1,981	306,233
Total accumulated depreciation	531,434	56,810	4,281	583,963
Business-Type Activities Capital Assets - Net	<u>\$ 1,276,428</u>	<u>\$ (15,010)</u>	<u>\$ 676</u>	<u>\$ 1,262,094</u>
Depreciation was charged to governmental functions as follows:				
Instruction	\$ 607,363			
Student support	753			
Instructional staff	2,500			
District administration	3,024			
School administration	341			
Business support	405			
Plant	3,137			
Transportation	109,284			
Central office	2,132			
	<u>\$ 728,939</u>			

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2004

NOTE F – LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1997	\$ 1,515,000	4.1% - 5.2%
1998	5,685,000	4.4% - 4.5%
2001	8,170,000	2.7% - 5.0%
2004	1,075,000	1.35% - 3.5%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Larue County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2004, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2004-05	\$ 505,000	\$ 645,374	\$ 338,787	\$ 811,587
2005-06	520,000	626,986	338,787	808,199
2006-07	540,000	607,160	338,786	808,374
2007-08	560,000	585,729	338,786	806,943
2008-09	585,000	562,981	338,786	809,195
2010-14	3,260,000	2,415,271	1,617,687	4,057,584
2015-19	3,520,000	1,660,872	1,185,026	3,995,846
2020-24	3,300,000	815,205	524,828	3,590,377
2025-27	<u>1,770,000</u>	<u>135,750</u>		<u>1,905,750</u>
	<u>\$ 14,560,000</u>	<u>\$ 8,055,328</u>	<u>\$ 5,021,473</u>	<u>\$ 17,593,855</u>

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2004

NOTE E – LONG-TERM OBLIGATIONS - CONTINUED

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Long-term liability for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Revenue bonds payable	\$15,050,000	\$ -	\$ 490,000	\$14,560,000	\$ 505,000
Accrued sick leave	<u>458,565</u>	<u>39,790</u>	<u>107,280</u>	<u>391,075</u>	<u>69,641</u>
Governmental Activities:					
Long-term liabilities	<u>\$15,508,565</u>	<u>\$ 39,790</u>	<u>\$ 597,280</u>	<u>\$14,951,075</u>	<u>\$ 574,641</u>

The Debt Service Fund is primarily responsible for paying the bond obligations through funding from the Capital Outlay and FSPK funds. The General Fund is primarily responsible for paying accrued sick leave.

NOTE F – CAPITAL LEASE PAYABLE

The following is an analysis of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book value as of June 30, 2004</u>
Buses	\$ 98,992

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2004:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2005	\$ 48,173
2006	<u>48,048</u>
Total minimum lease payments	96,221
Less: Amount representing interest	<u>(6,888)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 89,333</u>

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2004

NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2004, as follows:

Year ending

June 30, 2005	\$ 17,400
June 30, 2006	<u>14,500</u>
Total	<u>\$ 31,900</u>

Rent expense for the year ended June 30, 2004, was \$17,400.

NOTE H – RETIREMENT PLANS

All the District's eligible employees participate in the Kentucky Teacher's Retirement System (KTRS), a statewide multiple-employer public employee retirement system covering all employees of local school districts within the State of Kentucky. KTRS is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the District but are the liability of the State of Kentucky. KTRS is funded through state and employee contributions and the District has no legal obligation for paying benefits. As discussed below, the District may be required in certain situations to make limited contributions on behalf of certain employees.

The State of Kentucky contributes 13.105% of the employee's gross earnings except for those District employees being paid from and participating in federally funded programs. During the year, contributions of \$996,809 were made by the State of Kentucky and \$92,891 in contributions were passed through the District's federally funded programs. Contributions by the employees are 9.855% of gross earnings and are withheld by the District. Such withholdings totaled \$818,427 during the year and were paid by the District to the State of Kentucky. The District has no other liability under the plan. The District's total payroll for all employees during the year was \$10,585,227, and \$8,315,148 of such amount related to employees covered by the retirement plan.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and a District contribution of 7.34% of the employee's total compensation subject to contribution. The District's contribution requirement for CERS for the year ended June 30, 2004 was \$272,833, which consisted of \$160,130 from the District and \$112,703 from the employees. The total covered payroll for CERS during the year was \$2,175,658. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

Additional information and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky Comprehensive Annual Financial Report.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2004

NOTE H – RETIREMENT PLANS-CONTINUED

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The Board therefore does not show these assets and liabilities on this financial statement.

NOTE I - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE J - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress, except as described elsewhere in this report.

NOTE K - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated which includes Workers' Compensation insurance.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2004

NOTE L - RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Childcare Fund	\$ 3,370
Debt Service Fund	28,128
Construction Fund	710

NOTE N - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2004

NOTE O - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 21,978
Operating	SEEK Capital Outlay	Debt Service	Debt Service	219,780
Operating	FSPK Fund	Debt Service	Debt Service	527,854
Operating	General	Special Revenue	Operations	1,550

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

The interfund balance at June 30, 2004, was the General Fund as the receivable fund and the Food Service Fund as the payable fund for \$70,352. The balance was for charges paid by the General Fund.

NOTE Q – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2004, was \$2,016,440.

NOTE R – PRIOR PERIOD ADJUSTMENT

The District restated the fund balances of the General Fund and FSPK Fund to reclassify an item that should have been paid out of the General Fund and was paid from the FSPK Fund in fiscal year 2003. The result was a decrease in General Fund fund balance of \$20,875 from \$2,137,554 to \$2,116,679, and an increase in the FSPK Fund fund balance of \$20,875 from \$117,448 to \$138,323. Since both funds are governmental fund types, there was no change in net assets.

REQUIRED SUPPLEMENTARY INFORMATION

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL

GENERAL FUND

Year Ended June 30, 2004

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
From local sources:			
Taxes:			
Property	\$ 1,466,951	\$ 1,566,500	\$ 1,656,635
Motor vehicle	300,000	323,000	360,490
Utilities	275,000	300,000	456,304
Tuition and fees			4,600
Earnings on investments	100,000	60,000	77,189
Other local revenues			17,885
Intergovernmental - Intermediate			
Intergovernmental - State	8,439,566	9,017,510	11,045,159
Intergovernmental - Indirect Federal			
Intergovernmental - Direct Federal			14,831
	<u> </u>	<u> </u>	<u> </u>
Total Revenues	10,581,517	11,267,010	13,633,093
Expenditures:			
Instruction	6,596,997	6,724,848	7,904,330
Support services:			
Student	691,905	642,540	650,617
Instruction staff	417,848	342,624	376,315
District administrative	768,394	830,382	339,547
School administrative	657,872	675,712	837,156
Business	238,516	257,962	315,160
Plant operation and maintenance	1,016,359	1,177,645	1,333,271
Student transportation	831,865	858,209	813,206
Facilities acquisition and construction			20,220
Community service activities			
Other	803,456	1,807,445	63,792
Debt service:			
Principal			
Interest			
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	12,023,212	13,317,367	12,653,614
Excess (Deficit) of Revenues over Expenditures	(1,441,695)	(2,050,357)	979,479
Other Financing Sources (Uses):			
Proceeds from sale of fixed assets			113,034
Operating transfers in			
Operating transfers out	(50,000)	(43,200)	(23,528)
	<u> </u>	<u> </u>	<u> </u>
Total Other Financing (Uses)	(50,000)	(43,200)	89,506
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(1,491,695)	(2,093,557)	1,068,985
Fund balance, July 1, 2003	1,491,695	2,093,557	2,116,679
	<u> </u>	<u> </u>	<u> </u>
Fund balance, June 30, 2004	\$ -	\$ -	\$ 3,185,664

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL

SPECIAL REVENUE FUND

Year Ended June 30, 2004

	Original	Final	Actual
Revenues:			
From local sources:			
Taxes:			
Property	\$ -	\$ -	\$ -
Motor vehicle			
Utilities			
Other taxes			
Tuition and fees			
Earnings on investments			658
Other local revenues	4,143		20,337
Intergovernmental - Intermediate			
Intergovernmental - State	767,077	767,077	897,039
Intergovernmental - Indirect Federal	1,342,204	1,342,204	1,460,981
Intergovernmental - Direct Federal	4,000	4,000	4,000
Total Revenues	2,117,424	2,113,281	2,383,015
Expenditures:			
Instruction	1,942,363	1,938,220	1,949,853
Support services:			
Student	25	25	48,137
Instruction staff	46,454	46,454	151,318
District administrative			
School administrative			
Business			
Plant operation and maintenance			
Student transportation	8,724	8,724	60,894
Central office			
Facilities acquisition and construction			
Community service activities	141,836	141,836	178,620
Debt service			
Principal			
Interest			
Total Expenditures	2,139,402	2,135,259	2,388,822
Excess (Deficit) of Revenues over Expenditures	(21,978)	(21,978)	(5,807)
Other Financing Sources (Uses):			
Operating transfers in	21,978	21,978	23,528
Operating transfers out			
Total Other Financing Sources (Uses)	21,978	21,978	23,528
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	-	17,721
Fund balance, July 1, 2003	-	-	28,618
Fund balance, June 30, 2004	\$ -	\$ -	\$ 46,339

SUPPLEMENTARY INFORMATION

LARUE COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2004

	Capital Outlay Fund	FSPK Fund	Total Nonmajor Governmental Funds
Assets and Resources:			
Cash and cash equivalents	\$ 2,390	\$ 216,041	\$ 218,431
Accounts receivable:			
Taxes - current			-
Taxes - delinquent		447	447
Total Assets and Resources	<u>\$ 2,390</u>	<u>\$ 216,488</u>	<u>\$ 218,878</u>
Liabilities and Fund Balances:			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Total Liabilities	-	-	-
Fund Balances			
Reserved for:			
SFCC escrow	2,390	138,323	140,713
Unreserved:			
Undesignated, reported in:			
Capital projects funds		78,165	78,165
Total Fund Balances	<u>2,390</u>	<u>216,488</u>	<u>218,878</u>
Total Liabilities and Fund Balances	<u>\$ 2,390</u>	<u>\$ 216,488</u>	<u>\$ 218,878</u>

LARUE COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2004

	Capital Outlay Fund	FSPK Fund	Total Nonmajor Governmental Funds
Revenues			
From local sources:			
Taxes:			
Property	\$ -	\$ 251,100	\$ 251,100
Other local revenues		570	570
Intergovernmental - State	219,780	354,349	574,129
Total Revenues	219,780	606,019	825,799
Expenditures			
Facilities and construction			-
Total Expenditures	-	-	-
Excess (Deficit) of Revenues over Expenditures	219,780	606,019	825,799
Other Financing Sources (Uses)			
Operating transfers out	(219,780)	(527,854)	(747,634)
Total Other Financing Sources (Uses)	(219,780)	(527,854)	(747,634)
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	78,165	78,165
Fund balance, July 1, 2003	2,390	138,323	140,713
Fund balance, June 30, 2004	<u>\$ 2,390</u>	<u>\$ 216,488</u>	<u>\$ 218,878</u>

LARUE COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

AGENCY FUNDS

June 30, 2004

	Buffalo Elementary	Hodgenville Elementary	Magnolia Elementary	Larue County Middle School	Larue County Intermediate School	Larue County High School	Total Agency Fund
Assets							
Cash and cash equivalents	\$ 8,655	\$ 7,390	\$ 8,852	\$ 24,037	\$ 12,467	\$ 75,951	\$ 137,352
Accounts receivable	67	130	49	355	159	7,075	7,835
Total Assets	<u>\$ 8,722</u>	<u>\$ 7,520</u>	<u>\$ 8,901</u>	<u>\$ 24,392</u>	<u>\$ 12,626</u>	<u>\$ 83,026</u>	<u>\$ 145,187</u>
Liabilities							
Accounts payable	\$ 93	\$ 146	\$ 75	\$ 409	\$ -	\$ 17,396	\$ 18,119
Due to student groups	8,629	7,374	8,826	23,983	12,626	65,630	127,068
Total Liabilities	<u>\$ 8,722</u>	<u>\$ 7,520</u>	<u>\$ 8,901</u>	<u>\$ 24,392</u>	<u>\$ 12,626</u>	<u>\$ 83,026</u>	<u>\$ 145,187</u>

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

LARUE COUNTY HIGH SCHOOL

YEAR ENDED JUNE 30, 2004

NAME OF ACTIVITY	CASH BALANCES July 1, 2003	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2004	ACCOUNTS RECEIVABLE AND DUE FROM OTHER FUNDS June 30, 2004	ACCOUNTS PAYABLE AND DUE TO OTHER FUNDS June 30, 2004	FUND BALANCES June 30, 2004
Academic	\$ 53	\$ 1,030	\$ 1,001	\$ 82	\$ -	\$ -	\$ 82
Agenda Books	-	-	-	-	-	-	-
Agriscience	2,356	6,302	8,565	93	6,266	12	6,347
Art Club	9	1,095	1,059	45	-	-	45
Art Department	-	297	272	25	-	-	25
Arts and Humanities	-	-	-	-	-	-	-
Athletic - Baseball	-	-	-	-	-	-	-
Athletic - Cross Country	-	-	-	-	-	-	-
Athletic - Volleyball	-	-	-	-	-	-	-
Athletic - Wrestling	10	-	-	10	-	-	10
Athletic B-Ball Camp	1,990	2,874	3,107	1,757	-	-	1,757
Athletic F-Ball Coke	369	1,647	1,939	77	-	40	37
Athletic Girls B-Ball Camp	125	34	159	-	-	-	-
Athletics	19,860	84,802	90,352	14,310	159	1,104	13,365
Band	4,778	11,707	14,880	1,605	-	-	1,605
Business Department	-	2,783	2,702	81	-	-	81
Candy Machines	1,736	486	71	2,151	50	-	2,201
Champions Club	758	1,775	60	2,473	-	-	2,473
Choir	2,400	1,215	1,142	2,473	-	-	2,473
Coke - Faculty	354	911	883	382	-	-	382
Community Service Club	586	240	353	473	-	-	473
Computer Lab	-	-	-	-	-	-	-
Concessions	878	7,194	7,937	135	-	-	135
Family & Consumer Science	-	1,038	1,037	1	-	-	1
FBLA	41	5,600	5,641	-	-	-	-
FCA	156	-	68	88	-	-	88
FCCLA	1,644	5,376	5,777	1,243	-	-	1,243
FFA	257	28,162	28,419	-	600	-	600
Field Trip	478	488	837	129	-	-	129
Flower & Gift Fund	110	600	710	-	-	-	-
Future Educators of America	108	-	-	108	-	-	108
General Fund	4,906	7,148	8,791	3,263	-	385	2,878
Gjerstad Supplies	-	-	-	-	-	-	-
Guidance Office	541	1,560	1,619	482	-	-	482
Junior Achievement	-	-	-	-	-	-	-
Junior Class	6,106	7,828	8,085	5,849	-	-	5,849
Kelly Dean Sanders Fund	746	-	746	-	-	-	-
Library Club	-	859	204	655	-	-	655
Lift-A-thon	420	3,128	3,548	-	-	-	-
Little League Football Camp	23	-	-	23	-	-	23
Math & Science Club	30	-	30	-	-	-	-
Pep Club	18	3,104	2,683	439	-	-	439
SADD Chapter	366	-	366	-	-	-	-
Scholarship Fund	-	-	-	-	-	-	-
School to Career	80	-	80	-	-	-	-
Senior Class	-	2,588	2,588	-	-	-	-
Softball Uniforms	-	-	-	-	-	-	-
Spanish Honor Society	6	-	6	-	-	-	-
Speech & Drama Club	4,083	4,281	8,364	-	-	-	-
Student Coke	590	18,135	12,165	6,560	-	-	6,560
Student Council	176	3,519	2,963	732	-	-	732
Supplies	710	3,850	4,326	234	-	-	234
Technology Classes	-	123	123	-	-	-	-
Technology Study Association	294	1,425	1,352	367	-	-	367
Textbook Account	78	15,917	140	15,855	-	15,855	-
Volleyball Camp	1,106	-	1,106	-	-	-	-
Yearbook	9,626	17,491	13,366	13,751	-	-	13,751
TOTALS	68,961	256,612	249,622	75,951	7,075	17,396	65,630
TRANSFERS		7,005	7,005	-			-
TOTALS	\$ 68,961	\$ 263,617	\$ 256,627	\$ 75,951	\$ 7,075	\$ 17,396	\$ 65,630

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LARUE COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>		<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>PROGRAM OR AWARD AMOUNT</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>					
Passed Through State Department of Education:					
National School Lunch	10.555	*	575-03-02	N/A	\$ 89,394
			575-04-02	N/A	298,977
School Breakfast	10.553	*	576-03-05	N/A	24,383
			576-04-05	N/A	95,788
Summer Feeding Program	10.559	*	569-03-24	N/A	7,583
Cash for Commodities/Childcare	10.558		N/A	N/A	19,373
Passed Through State Dept. of Agriculture					
Food Distribution (In-Kind Commodities)	10.555	*	N/A	N/A	62,903
TOTAL U.S. DEPT. OF AGRICULTURE					598,401
<u>U.S. DEPARTMENT OF EDUCATION</u>					
Passed Through State Department of Education:					
Title I	84.010		3103	448,638	21,460
			3104	525,987	503,232
Title I - Migrant	84.011		3112	24,042	738
			3113	12,150	8,848
			3114	32,485	13,103
Title IIC	84.048		3483A	619	619
			3484	27,120	27,120
IDEA - Part B	84.027	*	3373	346,888	91,525
			3374	415,748	410,777
IDEA - Part B - Preschool	84.173	*	3434	34,120	31,826
Title IV	84.186		4062	15,442	1,558
			4063	15,767	4,839
			4064	15,719	115
Class Size Reduction	84.340		3882	89,077	507
Innovative Program Strategies	84.298		3343	14,889	2,088
			3344	14,849	13,850
Rural and Low Income Schools	84.358B		3503	47,178	10,920
Teacher Quality	84.367A		4013	136,992	8,929
			4014	140,941	140,941
Title II D	84.318X		4253	12,713	2,223
			4254	12,508	65
Evenstart	84.213		3233	85,500	20,775
			3234	85,500	59,698
Language Acquisition	84.365		3454	6,308	547

LARUE COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

YEAR ENDED JUNE 30, 2004

(Concluded)

U.S. DEPARTMENT OF EDUCATION-CONTINUED

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>PROGRAM OR AWARD AMOUNT</u>	<u>FEDERAL EXPENDITURES</u>
Passed Through Cabinet for Workforce Development Adult Education	84.002	3734 3734S	20,064 2,900	20,058 2,453
Passed Through University of Kentucky: Gear Up	84.048	3793G 3794G	57,430 64,635	18,885 44,046
TOTAL U.S. DEPARTMENT OF EDUCATION				<u>1,461,745</u>
<u>Corp. for National and Community Service</u>				
Passed Through State Department of Education: National Community Service	94.004	6754	4,000	<u>4,000</u>
TOTAL CORP. FOR NATIONAL AND COMMUNITY SERVICES				<u>4,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u><u>\$ 2,064,146</u></u>

* Denotes major federal program

The accompanying notes are an integral part of this schedule.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2004

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Larue County School District and is presented on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I-Summary of Auditor's Results

Section I-Summary of Auditor's Results

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

LARUE COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2004

FINDING 03-1 Idea B-CFDA 84.207 and Idea B-Preschool CFDA 84.173

Condition: Payroll was not supported by personnel activity reports as required by OMB Circular A-87.

Recommendation: Personnel activity reports should be completed.

Current Status: Recommendation was adopted. No current findings.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA
CHERYLE L. BEAUCHAMP, CPA
J. ALTON PIKE, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs



The CPA. Never Underestimate The Value.®

Members of the Board of Education
Larue County School District
Hodgenville, Kentucky

We have audited the basic financial statements of Larue County School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the Independent Auditor's Contract.

Compliance

As part of obtaining reasonable assurance about whether Larue County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards or state audit requirements. However, we noted certain immaterial instances of noncompliance that we have reported to management of Larue County School District in a separate letter dated October 12, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Larue County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Larue County School District in a separate letter dated October 12, 2004.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Larue County School District, the Kentucky Department of Education and management and should not be used by anyone other than these specified parties.

Stiles, Carter & Associates

Certified Public Accountants
October 12, 2004

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA
CHERYLE L. BEAUCHAMP, CPA
J. ALTON PIKE, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs



The CPA. Never Underestimate The Value.®

Members of the Board of Education
Larue County School District
Hodgenville, Kentucky

Compliance

We have audited the compliance of Larue County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Larue County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Larue County School District's management. Our responsibility is to express an opinion on Larue County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the Independent Auditor's Contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Larue County School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Larue County School District's compliance with those requirements.

In our opinion, Larue County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Larue County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Larue County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Larue County School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants
October 12, 2004

MANAGEMENT LETTER COMMENTS

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA
CHERYLE L. BEAUCHAMP, CPA
J. ALTON PIKE, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs



The CPA. Never Underestimate The Value.®

Members of the Board of Education of
Larue County School District
Hodgenville, Kentucky

In planning and performing our audit of the basic financial statements of Larue County School District for the year ended June 30, 2004, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated October 12, 2004 contains our report on the District's internal control structure. This letter does not affect our report dated October 12, 2004 on the financial statements of the Larue County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Certified Public Accountants
October 12, 2004

LARUE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2004

UNCORRECTED PRIOR YEAR COMMENTS

Purchase Orders – School Activity Funds

Completion of purchase orders prior to ordering goods is required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education. At Magnolia Elementary and Larue County Intermediate School we noted that a purchase order is not always completed prior to ordering goods.

Management Response

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

Segregation of Duties in Handling Receipts and Paying Bills – School Activity Funds

During our audit, we noted that Larue County Middle School and Buffalo Elementary School did not comply with the segregation of duties requirements for handling receipts and paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education. Larue County Intermediate School and Hodgenville Elementary School did not comply with the paying bills requirements.

Management Response

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

Vending Machine Inventory – School Activity Funds

During our audit, we noted that, at Larue County Middle School, vending machine inventory is not being monitored as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education. These requirements emphasize that the vendor for full-service vending machines provide an inventory reconciliation to the school.

Management Response

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

LARUE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2004

CURRENT YEAR COMMENTS

NSF Checks – School Activity Funds

During our audit, we noted that Larue County High School does not deposit NSF checks on a separate deposit ticket as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

Receipts – School Activity Funds

During our audit, we noted that, at Larue County Middle School, teachers/sponsors did not sign the Teacher's Multiple Receipt Form as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA
CHERYLE L. BEAUCHAMP, CPA
J. ALTON PIKE, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs



The CPA. Never Underestimate The Value.®

State Committee for School District Audits
Members of the Board of Education
Larue County Board of Education
Hodgenville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Larue County School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents, and have issued our report thereon dated October 12, 2004. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the *Independent Auditors' Contract*.

As stated in our engagement letter dated July 15, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or illegal acts may exist and not be detected by us.

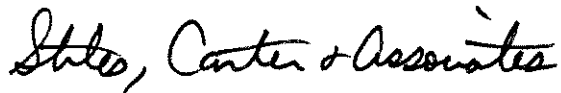
In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our audit procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This report is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management and is not intended and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Shilo, Carter & Associates".

Certified Public Accountants
October 12, 2004